



Financial Affairs Committee
December 14, 1999

1) Opening Business

The meeting was held at the CVPWA Offices, 1521 I Street, Sacramento. The meeting began at 9:30.

The next Financial Affairs meeting will be held January 28 at the ACWA office in Sacramento, 910 "K" Street, Suite 100. The meeting will begin at 9:30 a.m. There will not be a regular Financial Affairs meeting at the Annual Water Users conference in Reno. There will, however, be a financial issues meeting relative to Contract Renewals on January 20 beginning at 1:00 p.m. Note: A general financial meeting was held in San Diego (just prior to the ACWA conference) on November 30th.

2) Reclamation Reporting

a) Update on water accounting program (RAIN)

Jim Bjornsen reported that he is expecting a proposal from the Contractor for review very soon. The next step is for the Ratesetting Office to perform an internal review of this proposal for adequacy. This review is expected to be completed in early January, after which work will begin to complete the implementation of the RAIN water accounting program.

b) 1999 Water Contractor Accountings

Jim reported that the 1999 Water Revenue schedules were nearly complete. He mentioned that 36 Water Contractors had provided feedback regarding preliminary water delivery data. Of these, there were 12 Irrigation and 5 M&I Contractors for which adjustments were made. Most of these adjustments were due to timing differences in Water Year/Contract Year reporting. Differences were significant in only a few cases, and are being resolved.

c) CVP Cost Allocation

A workshop is planned by Reclamation to present the three alternatives under consideration for use in making CVP Cost Allocations. This workshop will also facilitate the development of evaluation criteria that will be subsequently used to rank the cost allocation alternatives under consideration. This workshop was tentatively scheduled for a date in January. (We have since been informed that logistical problems have forced a delay until at least mid-February.) Further information on date and time will be forthcoming.

d) Full-Cost Water Pricing

An overview briefing will be given by Jim Bjornsen and his staff on Friday, January 14 (10:00 AM) to explain the procedures, computations, and authorities used in developing **Full Cost Water Rates.** This meeting will be held at the Bureau of Reclamation (2800 Cottage Way, Sacramento). If you are planning to attend please call or leave an e-mail message for Chuck Winn.

A remaining unresolved issued relative to FY 98 accountings pertains to O&M expenses incurred by the Central Valley Operations office (CVO). Various CVO operations have been restructured over the past several years resulting in certain changes to the way expenses have been recorded. An item that underwent an accounting change was the "System Control and Load Dispatch" account (AC# 3372). This account had previously been accounted for in Power Operations for many years, but was reclassified as a Multipurpose account in the CVO restructuring. Expenses of more than \$1.7 Million were recorded during FY 98. The reclassification from Power to Multipurpose resulted in a shift of approximately \$650,000 from Power to Water functions. Reclamation has been asked to review this issue and provide an update at the February FAC meeting.

4) Tiered Pricing

Ron questioned the basic premises upon which the Tiered Pricing rates provided at the November 17 Reclamation workshop were based. At the workshop, Reclamation provided data showing that just 7% of the Irrigation Investment had been repaid; consequently measures had been included in Tiered Pricing procedures to assure repayment by 2030. Although only a small percent of the Irrigation Capital Investment has been repaid to date, there are a number of mitigating circumstances involved, including fixed 40 year water rates, inflation, droughts, and other factors affecting payout. However, most of these adverse factors have been resolved and payout by the end of year 2030 will be accomplished under the current Ratesetting Policy. To introduce a new "5 year delivery base" as described in the Tiered Pricing workshop could actually increase volatility of rates (because a 5-Yr average is too short a period and subject to cyclical drought and wet periods), and may well reduce Restoration Fund collections.

5) Warren Act Legislation

Ron provided an update of recent actions regarding Warren Act issues. In early December a meeting was held in Las Vegas to review, clarify, and revise Warren Act language to be included (hopefully) in a February congressional legislative bill. Basically, Ron explained, the bill would provide that Warren Act revenues applicable to the O&M Rate Component would be credited against O&M expenses chargeable to the Water Users. The same would hold true for the Capital component of Warren Act revenues—Capital revenue would be applied against Water User current year Capital obligations instead of applying such revenues as a tail-end credit (essentially applied in 2030). To the extent that there is an Interest Component, it would be applied against the Contractors' Unpaid Interest cost—rather than against O&M expenses as the Water Users would prefer. New legislation would also deem "215" water as Project Water for purposes of Warren Act application.

6) Other Issues

Paul Olmstead distributed a news note prepared by Ed Roman. One item mentioned that Reclamation had increased the Power program by \$3 Million for Y2000 of which 20% will be paid for by the Water Users.

Also mentioned in Ed's news note was that O&M costs of the Spring Creek Debris Dam and National Fish Hatchery had been under-allocated to reimbursable functions over the last several years. Cost adjustments for these facilities will probably be made in the 1999 accountings. However, partially offsetting these adjustments, will be an adjustment for Trinity River Restoration Program costs allocated to reimbursable functions since October 1998. Costs of the TRRP have recently been determined to be non-reimbursable and a credit will probably be applied to 1999 Water User accountings. (A copy of Ed's news note is enclosed for further detail).

